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PROGRESS OF RUMANIAN FINANCIAL REFORM, 1951 - 1952

Comment: Complaints against failures in financial discipline appeared in numerous articles in the Rumanian press in 1951, as well as in the official Rumanian economic periodical, Probleme Economice, 1951 - 1952.

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To overcome some of these difficulties, the Council of Ministers decreed a currency reform on 28 January 1952. On 7 March 1952, a second financial decree was issued to strengthen the new leu and to reorganize the entire Rumanian financial structure. This second decree was patterned after a similar decree of the Council of Ministers of the USSR of March 1931.

One of the reasons given for the promulgation of the second decree was the inability of the state to apply "the economic law of the NEP" (New Economic Policy), providing for a limited freedom of trade and the free play of prices within certain limits, and regulation of the market by the state. The RPR (Rumanian People's Republic) has never officially declared the existence of a NEP in Rumania and therefore this statement in Lupta de Clasa, party theoretical organ, is of special interest.

Numbers in parentheses refer to appended sources.7

Among the articles in Probleme Economice criticizing the failure of financial discipline was one in the September 1951 issue by R. Lazar and Gh. Saon. They declared that in the electrical equipment industry investments were not used for purposes for which they were intended. Credits granted for the procurement of production equipment were used instead to build unauthorized stockpiles.(1) M. Maevaschi, writing in the same issue, reported a speech in which Vasile Luca, then Minister of Finance, spoke out against the misuse of funds. Luca stated that money and credits granted for production, salaries, and other purposes were not correctly used.(2)

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In an earlier issue of Probleme Economice, R. Saveanu explained that financial reports from enterprises in the constructions and metallurgical industries did not give a true picture of investments made for current production purposes. Requests for allocations of funds by enterprises and even directorates sometimes showed a lack of understanding of the provisions and purposes of the investment plan. (3) Maevschi had noted that the maintenance of financial records, such as the status of the investment plan or the computation of production costs, tended to be erroneous in many enterprises. (2)

Numerous other errors of the same nature

The reporting of poor financial discipline in mining, metallurgy, constructions, electrical enterprises, petroleum, and other economic fields appears to indicate a certain degree of confusion and lack of control on the part of the Ministry of Finance.

Although numerous articles appeared in praise of the 28 January 1952 currency reform, one of particular significance appeared in Lupta de Clasa, theoretical organ of the Rumanian Worker's Party. The currency reform, according to the decree which promulgated it, was intended to "establish order in the circulation of currency, increase the production of consumers' goods, and provide for their concentration in the hands of the state in sufficient quantities to meet the needs of the population and to exercise the necessary amount of influence over the free market prices. This will make it possible, in the near future, to reduce retail prices still further, to do away with the ration card system, and to establish single retail prices, all of which means an increase in the real pay of workers and the income of the peasantry."

According to Lupta de Clasa, the control of consumers' goods by the state, control of prices, and the increase in the real pay of the workers depend on a continuous increase in the productivity of labor, on the reduction of production costs, and on strict control of the wage fund. (4)

The decree of 7 March 1952 incorporated such measures into law. The decree declared that "Party organizations must implant in the worker the conviction that any increase in his standard of living depends first on an increase in real pay, in the purchasing power of the leu, and in the abundance of goods." To achieve increased labor productivity, workers, technicians, and engineers were called upon to achieve maximum utilization of working time, of machine capacity, and to apply Stakhanovite methods. Enterprise managements were told that they could decrease production costs by maintaining a proper ratio between an increase in labor productivity and an increase in average pay. Industry was called on to increase the available supply of manufactured goods, otherwise the pay increase could not be translated into an increase in the standard of living. (5)

The two decrees called for austerity and economy on the basis that all non-essential expenditures and all waste lead to an increase in the total amount of currency in circulation and weaken the purchasing power of the leu. According to the decrees, economizing would increase socialist accumulations, investments for the construction of new factories, plants, cultural and health institutions, and thus raise the standard of living of the worker. A strict regime of economy was declared necessary for the success of the currency reform, and strict observance of financial and plan discipline were deemed essential for the continued progress of the national economy. (4,5)

The decree of 28 January 1952 did not find strong enough support, especially in the field of domestic trade and labor productivity, as is shown by the following editorial in Lupta de Clasa.

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The chief support of the standard of living of the worker should be an aggressive domestic trade policy which would assure proper supplying of the population and strengthen the leu. An aggressive domestic policy should not be difficult, for 1951 was a good agricultural year, providing cities with an adequate food supply. Also, larger quantities of manufactured goods are reaching the peasant. Despite these favorable conditions numerous factors cut down the effectiveness of domestic trade.

Until the second decree, there was still a great deal of lazy thinking which stood in the way of finding means to raise the standard of living of the working population. For example, direct delivery of farm products to cities could have been organized. Regions and raion supply centers could have been established. However, people's councils did not devote sufficient attention to socialist trade. There was excessive centralization. For example, stores in remote corners of the country were under the direct management of the Minister of Domestic Trade.

Domestic trade was further harmed by the fact that many former employees of capitalist enterprises and many former tradesmen were still engaged in socialist trade and in the cooperative movement. These men had a certain amount of training, experience, and knowledge, but also a definite bourgeois viewpoint. Such men required aid, re-education, and above all, supervision. Those engaged in trade must be taught to combat the speculation that has been common. They must be shown how to fight attempts by capitalist elements to acquire goods from state stores for the purpose of selling them later at higher prices.

In addition, trade between town and village, a responsibility of the Ministry of Domestic Trade, was unsatisfactory. Some units of the cooperative movement failed to realize that one of the chief duties of the cooperatives is to attract the peasantry to socialism. These individual cooperatives permitted the volume of manufactured goods sold through village cooperatives to grow far more rapidly than the volume of agricultural products purchased by the cooperatives for distribution in towns.

Laxity in the collection of taxes and compulsory deliveries, as well as mistakes in the application of prices for general and contractual purchases in trade between town and village, have become common. This situation has been exploited by capitalist elements. They have accumulated large sums of money and vast quantities of goods which enabled them to exert pressure on the market by speculation and raising prices. As a result, the needs of workers and industry for agricultural products have been inadequately supplied. This has brought about an imbalance between the price of manufactured goods and agricultural prices. For example, the price of agricultural commodities on the free market has trebled since 1947. For certain products the increase has been even higher. Consequently the state has been unable to accumulate enough agricultural products to permit it to control prices on the free market. It has been unable to apply "the economic law of the NEP" New Economic Policy which provides for a limited freedom of trade and the free play of prices within certain limits, and regulation of the market by the state.

The financial policies of the state have also suffered from the failure of certain branches of industry to increase labor productivity as planned. Enterprises have not devoted enough attention to the mobilization of internal reserves. They have not concentrated on the reduction of manufacturing costs nor on the proper management of the wage fund. For example, in 1950 the productivity of labor in industry increased 8.2 percent while the average wage increased 8.6 percent.

All of these negative factors in the national economy have led to an abnormal increase in the amount of currency in circulation and have weakened the purchasing power of the leu.(4)

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To overcome the conditions that have caused difficulties in the entire financial system of the RPR, the government and the party found it necessary to issue a second financial decree on 7 March, providing for the "consolidation of the success of the currency reform." These measures were intended to revise the operation of the entire financial system by reorganizing the Ministry of Finance and the State Bank. This was made necessary by "grave deviations in the banking system brought about by the former heads of the Ministry of Finance and of the bank, as well as errors in domestic trade and labor." These deviations constituted counterrevolutionary opportunist policies led by Vasile Luca and the elements which he directed, according to A. Moisesescu, president of the State Bank of the RPR. The substance of the article "Control by the Leu" follows:

By a revision of the banking system closer financial control could be exercised over all economic processes and thus plan fulfillments could be assured. The banking system of Rumania under Luca failed to control the leu and thus undermined the regime. Luca and his counterrevolutionary group systematically weakened industrialization and financial discipline in order to limit the productivity of socialist enterprises. The reorganization was intended to correct this.

First of all, the deviationist elements carried out a short-sighted credit policy. In granting credits, they did not take into account the true financial situation of the applicants. They granted credits too freely and thus contributed to the creation of stockpiles far larger than needed or provided by plans. These stockpiles tied up large quantities of money and thus slowed down the circulation of working funds, decreased profits, increased production costs, and prevented fulfillment of the savings plan of enterprises. As a result, accounts of individual enterprises were blocked.

The Credit and Investment Bank of the RPR used similar methods for the determination of credits for both weak and strong enterprises. The Credit and Investment Bank, as well as the State Bank of the RPR, failed to keep daily progress records or exact figures on the working fund. The subversive elements in control sought to sabotage the industrial plan of the entire country by limiting investments for heavy industry and for major construction projects such as the Danube-Black Sea Canal and the Scanteia publishing house. Such harmful credit policies encouraged enterprises to make poor use of their own working funds and to neglect the search for new internal reserves.

The former administration of the State Bank did not enforce terms of payment for credit extended. In decreasing credit, the bank failed to take into account the requirements of planned sales, and thus contributed to the curtailment of production, to the reduction in the rate of turnover of working funds, to the creation of excess stocks, and to the blocking of accounts. By undermining financial discipline, the bank prevented payments by enterprises for commodities and services. By permitting the blocking of accounts, the Luca faction caused a chain of payment defaults. For example, the account of the Special Construction Enterprise of Hunedoara was blocked. The enterprise was therefore unable to fulfill its obligations to the Industria-Sarmiei of Campia-Turzii, Muncitorul of Cristian, Rasaritul of Stalin, and Progresul of Braila. Consequently, these enterprises, in turn, could not fulfill their own financial obligations and suffered blocked accounts.

A similar situation existed in state and cooperative commercial units. The blocking of basic sales accounts in the Ministry of Light Industry brought about the blocking of accounts of productive enterprises of the same ministry. The State Bank did not concern itself with discovering the errors which caused this situation, nor with aiding the individual enterprises to remedy them. It did not assist enterprises in the management of funds, nor did it adequately supervise adherence to payment discipline or impose penalties where necessary.

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It did not supervise the utilization of salary funds in cases when enterprises paid salaries exceeding the rate prescribed by the decree of fulfillment of the production plan. This caused excess circulation of money.

Grave errors were committed in the application of financial control. The banking plan itself prescribed erroneous practices for the increase of trade between city and country and in the supply and distribution of goods. When errors occurred in this field, the bank did not step in and warn the government and other economic units responsible, nor did it take concrete steps to remedy the situation.

All of these problems were discovered and dealt with by the party and the government through the purging of the Ministry of Finance, the State Bank of the RPR, and of the Credit and Investment Bank of counterrevolutionary elements.(5)

In this connection, an example of how the deviationist policy favored the kulaks was given in an editorial in the February - March issue of Lupta de Clasa. The editorial stated:

Financial policies of the government were hampered in agriculture by the deviationist policy toward kulaks. One of the main aspects of the deviation was an artificial reduction in the number of kulak farms. On the basis of incomplete data, the Central Committee of the Rumanian Workers' Party estimated that the kulak farms represented 5.5 percent of the total number of peasant holdings. In direct violation of decrees issued at the plenary session of 3 - 5 March 1949 when this estimate was made, the number of kulak farms was reduced to one third of this estimate by arbitrary reclassification. This reduced state income from taxation, compulsory deliveries, and credits. This artificial reduction was harmful in that it created independent small producers during a period when socialism was being introduced in agriculture. At the same time, a substantial number of peasant farms were unjustifiably exempted from taxation. Peasant incomes were underassessed. Some state and cooperative units appeased capitalist elements in villages in making purchases and granting contracts. These units permitted steady increases in the price of agricultural products. This favored the wealthier peasants.(4)

In his article Moisesescu pointed out how the loan policy of the State Bank also favored the kulak. Moisesescu's article continued as follows:

The bank was responsible for granting loans to working peasants during a period when they suffered from 2 successive years of drought. It was determined that of approximately 300,000 peasants in debt, more than 100,000 possessed arable land of 5-20 hectares. These persons, mostly kulaks, benefited from the bank's policy of not demanding repayment.

A remedy for this failure of the banking system was proposed in the decree of 7 March 1952. This second financial decree reorganized financial control of economic units. The financial and banking system was called upon to study and benefit from the example of the Gosbank of the USSR. The decree established the rule that credit could only be granted after an analysis of the real needs of enterprises and only for measures which would assure plan fulfillment. Stricter control of credit would prevent excess stockpiling and thus prevent immobilization of the working fund, which in the past cut production and the circulation of goods and currency. When properly supervised, credit becomes an instrument for the control and fulfillment of production plans and for the circulation of goods. By constant supervision, the bank can immediately call the attention of an enterprise to plan deviations and can apply penalties if necessary.

The system of financial control must be applied daily and systematically as one of the principal means for the implementation of financial discipline. Prompt discovery of deviations from financial discipline will make possible

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the determination of concrete measures to overcome such things as delays in payments. Through this control the bank will be able to supervise all economic activity and thus assure the general welfare. Daily supervision will enable the bank to build up state stockpiles necessary for the supply of industry and of the working population. The bank will have to collaborate with enterprises to increase the purchasing power of the leu. It will have to introduce a plan for daily deposits and payments on all levels of the national economy. By making use of the experience of the USSR the bank will learn how to make use of credit, currency circulation, and control of the wage fund to strengthen the leu.

A decree of the Council of Ministers USSR of March 1931 is of especial value in this regard. This decree, which is applicable to the situation in Rumania, prescribed a modification of the credit system, the consolidation of credit activities, and the introduction of a system of planned economy in individual economic units. By this means the USSR was able to strengthen the ruble and increase its purchasing power. In individual enterprises this system means immediate payment for goods and services received. The entire activity of an enterprise is computed in currency. This permits a constant check on expenditures, volume of production, labor force, materials, and savings.

When expenses rise above the planned level there is immediate evidence that the enterprise is badly managed. By this system, enterprises can more easily fulfill their savings plans for there is a constant check on the budget and the amortization fund. Financial control prevents delays in the turnover rate of working capital and thus increases profit. By controlling the circulation of goods and by maintaining a balance between the circulation of currency the State Bank of the RPR can assure a continued increase in the purchasing power of the leu.

The size of the financial operations of the State Bank, its dealings with all types of organizations makes it necessary to organize a wide network of branch banks. With the aid of these branch banks it is possible to maintain a closer check on the use of credit. The bank and its subsidiaries will constantly supervise the activities of all enterprises to assure that the loan is used for the purpose intended. Loans and credits are granted for plan fulfillment only. The bank must enforce repayment of credits on time. The repayment of credit on time will free funds for the continued circulation of goods and for further plan fulfillment. Failure to repay credits on time has led to the unbalancing of the state credit plan in the past. This is a sign of poor planned economy and permits enterprises to waste resources and create excess expenses.

The State Bank becomes the only center for clearing of nonmonetary transactions in the entire national economy. This permits a strict check of each operation as it is cleared.

Another important form of control utilized by the Gosbank of the USSR and which must be introduced in the RPR is control of currency circulation. In a socialist economy the state utilizes the circulation of currency to control the production and circulation of goods. The proper amount of currency to be circulated is determined at the time the banking plan is issued and again when it is fulfilled. By this means impediments to the success of the state plan can be removed in time. Almost 80 percent of the cash placed in circulation by wage payments is withdrawn by the sale of goods. Since both operations pass through the State Bank this permits constant currency circulation control.

Closer control by the bank will eliminate errors common in the past. In planning production some ministries did not take into account the real needs of consumers. This slowed up sales and distribution. Enterprises did not take an active role in the planning of deposits and accumulations. Under the new decree the bank must not only maintain records, but must act to overcome mistakes and failures.

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Financial difficulties stem especially from failure to respect the principles of planned economy; for example, nonfulfillment of plans, unproductive expenses, excess stock, and illegal credit. All these conditions were common under the Vasile Luca financial regime. Control of currency, the analysis of unsatisfactory activities of economic organizations, and the imposing of strict financial discipline will overcome these difficulties.(5)

SOURCES

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2. Probleme Economice, "The Profitability of Socialist Enterprises," by M. Maevschi, Sep 1951
3. Probleme Economice, "The Investment Plan," by R. Saveanu, Mar 1951
4. Lupta de Classa, "Let Us Consolidate the Achievements of the Currency Reform," editorial, Feb/Mar 1952
5. Probleme Economice, "Control by the Leu," by A. Moisesescu, May 1952

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